



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Tuba City Unified School District No. 15

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
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November 15, 2005

Governing Board
Tuba City Unified School District No. 15
P.O. Box 67
Tuba City, AZ 86045-0067

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Tuba City Unified School District No. 15 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$34 million it received in fiscal year 2004 to provide this education.

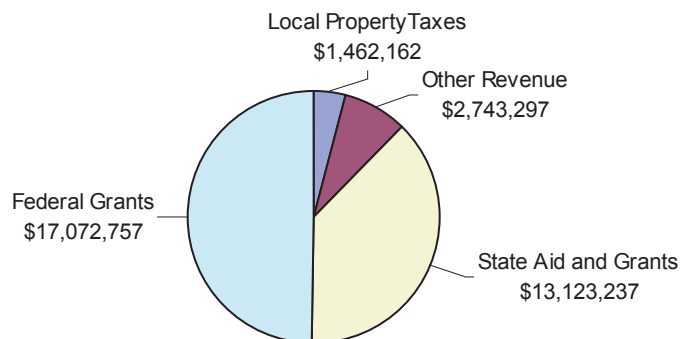
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2004

County: Coconino
Number of Schools: 7

Number of Students: 2,446
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2003-2004* and *Tuba City Unified School District No. 15 Audited Financial Statements for the Fiscal Year Ended June 30, 2004*.

The District should improve controls over its cash

The District used the Maintenance and Operation (M&O) Fund revolving and miscellaneous receipts clearing bank accounts to make payroll adjustments.

Because of the relatively high risk associated with transactions involving cash, districts should establish and maintain effective internal controls to safeguard cash. However, the District did not have adequate controls over its cash. Specifically, the District did not ensure that its bank accounts were used for the purposes prescribed by Arizona Revised Statutes. Additionally, the District did not properly separate cash-handling and recordkeeping responsibilities for the miscellaneous receipts clearing bank account. Further, district employees responsible for handling cash were not adequately bonded.

Recommendations

To help strengthen controls over its cash, the District should:

- Use the M&O revolving account only for expenditures that require immediate cash outlays as outlined in statute.
- Ensure that checks written from the miscellaneous receipts clearing account are only for the monthly remittance of receipts to the country treasurer.
- Separate cash-handling and recordkeeping responsibilities between employees. If one employee is responsible for multiple functions, a district manager or supervisor should review and approve summary reports and reconciliations.
- Ensure that employees responsible for cash-handling are adequately bonded.

The District must follow competitive purchasing requirements

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. Specifically, the District did not analyze the known requirements for items to be purchased. As a result, the District did not always issue invitations for bids or requests for proposals for purchases that exceeded the competitive sealed bid threshold. Also, the District did not always obtain oral or written price quotations for purchases that required them.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Analyze the known requirements for an item or a collection of items that, in the aggregate, may result in purchases in excess of the applicable threshold.
- Issue invitations for bids or requests for proposals for purchases over \$33,689.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost at least \$5,000, but less than \$15,000.
- Obtain written price quotations from at least three vendors for purchases estimated to cost at least \$15,000, but not more than \$33,689.
- Document the vendors contacted and their reasons for not providing oral or written quotations if the District cannot obtain three price quotations.

School District Procurement Rules provide the requirements for competitive sealed bids/proposals for goods and services in excess of \$33,689.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

The District's controls over auxiliary operations and student activities monies should be strengthened

The District collects auxiliary operations monies, which are district monies raised in connection with bookstore and athletic activities. The District also holds student activities monies, which are raised through students' efforts, for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, the Governing Board did not establish proper oversight. For example, the District did not control the issuance of tickets and prepare reports that reconciled sales to cash collected for athletic events, bookstore operations, and student activities events. Additionally, the District did not deposit student activities and auxiliary operations cash receipts in a timely manner. Finally, the District did not always ensure proper approval and documentation for student activities disbursements and did not report cash receipts, disbursements, transfers, and cash balances for student activities to the Governing Board monthly.

Student activities and auxiliary operations monies were not adequately safeguarded and, therefore, were at risk for theft or misuse.

The forms on USFR pages X-H-17, 18, 19, 21, and 22, and X-G-20 and 21 may be used to record daily cash collections and reconcile sales to cash collected.

Recommendations

The following policies and procedures can help the District improve controls over collecting and spending auxiliary operations and student activities monies:

- Use ticket logs to control tickets issued for auxiliary operations events, such as athletic games and dances.
- Prepare ticket sales reports for tickets sold for athletic or social events and daily sales reports for bookstore operations to reconcile sales to cash collected.
- Prepare cash collection reports for student activities events to reconcile sales to cash collections. For events where documenting sales is not practical, such as bake sales, the District should document the amount of cash collected.
- Deposit cash receipts intact daily, when significant, or at least weekly.
- Ensure that disbursements from the Student Activities Fund are made only by check and approved by the student club and documented in its minutes.
- Prepare a monthly report of student activities receipts, disbursements, transfers, and cash balances and submit it to the Governing Board.

The District should ensure its accounting records are accurate

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. To achieve this objective, management should ensure that its accounting records are accurate and complete. However, the District did not fully accomplish this objective. Specifically, the District did not reconcile its records to the County School Superintendent's records. Also, the District had a June 30, 2004, deficit fund balance of \$64,000 in its Debt Service Fund. Additionally, the District did not retain supporting documentation for journal entries.

Recommendations

To help ensure that the District's accounting records are accurate, the District should perform the following:

- Reconcile its cash balances to the County School Superintendent's records by fund monthly and reconcile its revenues, expenditures, and cash balances by

fund, program, function, and object code to the County School Superintendent's records at least at fiscal year-end.

- Maintain explanations, attachments, and references to documentation to support all journal entries. Require employees making and approving journal entries to sign and date each entry.
- Ensure that the District meets its debt requirements without incurring deficit fund balances by ensuring that the county levies secondary property taxes sufficient to make principal and interest payments.